

No. 3946

United States Circuit Court of Appeals for the Ninth Circuit

PAUL HARBROUGH,

Appellant,

vs.

JOSEPH F. DWYER,

Appellee.

APPELLANT'S BRIEF.

*Upon Appeal from the United States District Court for
the District of Oregon.*

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A Concise Statement of the Question Involved

This is an appeal from the decree of the District Court for Oregon (Hon. Robert S. Bean, D. J.) setting aside the report of the standing Master of that court, awarding appellant Harbaugh \$13,650. Such sum, the Master held, appellant Harbaugh was entitled to recover, since that, at the very least, represented the sum which appellee Dwyer had unlawfully appropriated

from Harbaugh's business, by eliminating him, his only competitor, by means of a preliminary injunction, wrongfully obtained by Dwyer in a suit for the alleged infringement of his patent, and unfair competition.

As appears from the opinion of Judge Bean (Trans. 56): The Master found that *appellee Dwyer and appellant Harbaugh* "had a practical monopoly of this business," and since Dwyer "was permitted by reason of the injunction to continue the business a portion of the profits made by him during such time belonged to the defendant (Harbaugh), because the plaintiff (Dwyer) became a trustee therefor ex maleficio."

Dwyer excepted to the Master's report, urging that since the business both parties were engaged in as competitors, must be classified as gambling, therefore the court should not interfere; no damages should be assessed against Dwyer because of the wrongful injunction, and in short Harbaugh must be denied any relief. And this notwithstanding the parties were engaged in said business as *competitors* and *not* as partners.

As the Master found:

"Dwyer was not a partner of Harbaugh, but a *competitor*. By his wrongful use of the court's injunction there have come into his hands funds which belong to the defendant. His possession of the same resulted *not from the agreement* on Harbaugh's part, but *against his wishes*, and *by reason of an order of the court which Dwyer himself ob-*

tained." (Trans. 46.) " * * * The defendant's claim for damages to his business had been abandoned, and he now claims an accounting for the profits which he says the plaintiff obtained, which in fact belong to him."

However, *the real question involved is not predicated directly upon any question of recovery of damages, but upon the duty of Dwyer to make restitution of the profits of which he illegally possessed himself by the wrongful injunction; and the duty of a court of justice to compel such restitution, when the parties are still before it, and it still has control of the subject matter.*

Note in this connection that *Dwyer admits his own transgressions of the law, but seeks to shelter himself, by the plea of illegality, in order that he may keep the profits he illegally obtained by his wrongful injunction.*

In this connection note further, as will be pointed out, that *Dwyer did not deny that, under his wrongful injunction he appropriated some profits in the business from Harbaugh; also testified that the business was profitable.* (Trans. 182.)

He said, on the stand:

"Notwithstanding police and other conditions *I did quite a profitable business.* When I had interference in one place by the police I immediately went into another. I had a large territory to go into, and taking it as a whole the business was a profitable one."

Dwyer offered absolutely no assistance to the Master in determining the amount of profits he thus appropriated from Harbaugh, but contented himself wholly with relying on the insufficiency of the proofs presented by Harbaugh, showing the amount of the loss in his business, after the issuance of the wrongful injunction, and in this way proving indirectly the probable gain of Dwyer.

For as the Master found, (Trans. 42) :

“The testimony clearly shows that the plaintiff and defendants *had a practical monopoly* of the business in question, and that *by the issuance of the injunction there flowed to the plaintiff all the profits of the business.*” And (Trans. 51) inasmuch “as the plaintiff became trustee for the defendant, the burden was cast upon him by competent testimony to separate those profits which were rightfully his from those which belonged to defendant. This the plaintiff has not done.”

“We have two people enjoying a monopoly of the business, each claiming under separate patents. The plaintiff, by use of a restraining order unlawfully bars the defendant, his competitor, from the field, and thereby obtains profits which otherwise would have been the defendant’s.” (Trans. 44.)

Dwyer also raised the objection before the Master (see report Trans. 42) :

“1. That the imposition of damages is discretionary,” to which the Master answered that he had not considered that objection “for two reasons.” First, that the court’s order to him directs him to assess damages if any, sustained, and second, *the evidence does not disclose that degree of good faith on the part of the plaintiff in obtaining the injunction to warrant the exercise by the court of any discretionary power.*”

Judge Bean considered it necessary to consider only, of the numerous exceptions filed by Dwyer, his plea of illegality. (Opinion, Trans. 56.)

These matters are further brought out in detail in the following:

Brief Statement of the Facts in the Case

At the time the infringement suit was brought, Dwyer and Harbaugh were engaged, as competitors, in the business of selling merchandise by ticket vending devices. Each purchaser of a ticket would always get some merchandise, and besides the chance to get something of much greater value, as might appear on the next ticket following which the purchaser also had the right to purchase. And it was this element of chance which as Judge Bean concluded, condemned the business as illegal, in disposing of the infringement suit. But that finding was *merely incidental to the main finding* in the case, which was that *there was absolutely no infringement by the Harbaugh device* upon the Dwyer patent; Dwyer in trying to make Harbaugh an in-

fringer attempted to reintroduce, by construction, the very claims denied him in the Patent Office. (See opinion, Trans. 26.)

The *charge of unfair competition Dwyer abandoned* altogether. Not a word of evidence was given in support of it.

The suit was brought against Harbaugh and others in March, 1919, on a patent granted to Dwyer June 4, 1918, No. 1,268,222 for a so-called Device for Dispensing Tickets. The charges of the Bill were infringement and unfair competition. (As to the latter see paragraphs of Bill VIII to X, Trans. 7.) Furthermore, the Bill, in order to *impress* the court that it was dealing with an *adjudicated* patent, alleged in paragraph XII that the patent had been the "subject of adjudication" in a prior suit, entitled Dwyer v. Enloe, No. 8251, *tho the fact was there had been no such adjudication*. The disposal of such prior case was wholly by consent. (Trans. 179; and see certified copy of the consent decree.)

On March 27, 1919, appellee Dwyer obtained an order granting him a preliminary injunction restraining appellant Harbaugh, and the other defendants in said suit, from further using Harbaugh's Ticket Dispensing Device.

It appears from said preliminary injunction order that on the hearing of the motion therefor the vending boxes used by the parties, respectively, were introduced before District Judge Wolverton, who heard the mo-

tion. (Trans. 11.) Thus the character of said devices was established by these exhibits on the hearing of said motion.

Furthermore, the plaintiff's own patent clearly shows the direct, and apparently *only purpose and use for which his device was intended*. For note Fig. 5 of the drawing forming part of said Dwyer patent, which shows a fragment of ribbon of the tickets to be used with the Dwyer device, the fragment showing five tickets, three of which are shown in full and they read consecutively, from the bottom to the top (which would be the way the ribbon of tickets would be pulled out from the device), "5c collar button when sold by the Silent Salesman."—"5c collar button and Camera when sold by the Silent Salesman."—"5c collar button when sold by the Silent Salesman." And see also line 51, p. 2 of the specification of the Dwyer patent.

It is, therefore, submitted that the remark of Judge Bean in his opinion filed on setting aside of the Master's Report (Ib. 55) that the parties were "disposed apparently to keep the fact that these devices were of a gambling character in the background," was founded on a mistaken assumption as far as appellant Harbaugh is concerned. It is rather to be assumed that the court was persuaded by Dwyer, on the motion, to pass up that question until the trial of the whole case on the merits. Such assumption is supported by the contention of Dwyer on the trial of his infringement suit that his device was *not* of a gambling character, and that it had been so decided by a court. (Trans. 92.) It would

have been to Harbaugh's advantage if he could have persuaded the court, at the time the injunction motion came up, that these devices, and their only uses, were for purposes prohibited by the gambling statutes; for then the injunction probably would have been denied, and he would have been left on an equal footing with Dwyer in the field. Note also in this connection how Harbaugh tried to bring out the character of the Dwyer device at the trial of the infringement suit, but was prevented by the objections of Dwyer's counsel. ¹(Trans. 74.) Harbough frankly testified about his own device. (Ib. 91.)

The preliminary injunction provided (Trans. 12):

“(3) This order shall not be effective until plaintiff shall furnish a surety bond in the sum of Ten Thousand (\$10,000) Dollars, or in lieu thereof, shall deposit with the Clerk of the Court, United States Liberty Bonds of the par value of Ten Thousand (\$10,000) Dollars to secure the payment of any damage which may be awarded to defendants, if upon final adjudication it shall appear that defendants do not infringe the patents in suit.

(4) Plaintiff's surety bond in the sum of Twenty-five Hundred ¹(\$2500.00) Dollars, filed herein at the time of the temporary restraining order is hereby discharged.”

Thus showing that Judge Wolverton deemed it necessary to increase the bond of Dwyer from \$2,500 to \$10,000.

In compliance with said order of March 27, 1919, Dwyer deposited and there still remains with the Clerk of the said United States District Court, United States Liberty Bonds in the sum of \$10,000.00.

The defendant's answer denied the validity of said alleged patent, also its infringement. (Trans. 13.) Also any unfair competition by defendants; in that regard alleging that whatever resemblance there is in the outward appearance of the devices, is due solely "to physical and structural requirements common to said devices." (Trans. 23.) The answer further alleged that "instead of the defendants or either of them being guilty of infringement, or unfair competition, in the premises whatsoever, the plaintiff is seeking to bring about an *unfair restraint on Harbaugh's business* and the sale of his merchandise." (Ib.)

And by supplemental answer appellant Harbaugh set up the granting to him on March 11, 1920, of letters patent No. 1,339,823, for Ticket Dispensing Device, on an application filed in the U. S. Patent Office Feb. 13, 1919. (Trans. 25.)

The infringement case went to trial in October, 1919, before ~~the~~ District Judge Bean. On the trial of said suit Dwyer testified (Trans. 72) referring to his ticket vendors:

"I have up to now sold thousands of them. I would say that I have *done a business* * * * *of* *between \$250,000 and \$500,000* * * * This

represents the value of the merchandise sold thru those Silent Salesmen. (This was the name by which his devices were known.) Those sales were made in Oregon, California, Washington, Idaho, Montana and Alaska—were sold pretty generally thruout those states. *My customers here in Portland had considerable trouble. This was the one point we were not able to do a great deal of business, because after we got started, they got placed upon the trade here, first came Enloe and his partner in this business located in the Phoenix Building, the same building that the defendants are located in, also the same floor, the fifth floor * * ** *My customers here were interfered with thru this imitating device, not alone imitating the device itself, but imitating the method of sales and the style of merchandise that was used, and in many cases was put out by the retailer dealers as the same thing that I had had before, the difference being the price, the cut price given him by the defendants in this case, the General Novelty Company. Outside of this territory we had had scarcely any trouble with infringement.”* (Trans. 72, 73.)

On cross examination appellee Dwyer testified (Ib. 73):

“I applied for my patent thru Frank Warren, an attorney in Seattle. He advised me that the art relating to ticket vending machines was pretty well covered. I knew that it was an old idea to put tickets in the form of a roll or package and

feed them thru slots. (The file wrapper of the Patent Office, of plaintiff's patent was put in evidence as Defendant's Exhibit A.) I read the Patent Office letter of March 27, 1918, and particularly the paragraph beginning with the words 'Springsteen, Aug. 29, 1919,' reading 'No. 632,070, 211/37,' which shows finger holes to enable the operator to grasp the ticket. Walsh shows tension device * * * Whitaker, et al, June 11, 1872, No. 127,722, shows a pivoted dog L for preventing ticket being pushed back into the receptacle."

Reynolds, a patent attorney and expert, called as a witness on behalf of Dwyer, testified on cross examination (Ib. 85) :

"I have examined the Shoup No. 286,493, Springsteen 632,070, and Whitaker, 127,722, patents. All of these patents show a receptable or container for the mechanism employed and an opening thru which the ticket may be projected. I have also seen and examined the patent of C. L. Davis, on Ticket Case or Holder, granted May 31, 1892, No. 476,005, and the patent to Oehring, on Ticket Holder, granted Dec. 6, 1910, No. 978,052, both showing * * * a roll and a pack of tickets, as existing at a date prior to the Dwyer patent. * * * The Dwyer patent specifically states that the partitions are fixed to the removable back wall. (Trans. 86.) The defendant's device has no back wall which is fixedly fastened to the partitions, that is, the back wall I mean a portion of the

outer casing. That is possibly what is meant by a removable back wall in claim 1 of the same patent. The next element in the same claim provides 'guide members having slots that fit over said shaft and co-operate with said slots in the end walls of said receptacle to form a support for said shafts. That has reference merely to the little parts that are cut away in the partition walls of plaintiff's device, so as to adapt them to be inserted over the shaft which carries the rolls of paper. The defendant's device having no partitions, necessarily has no slots in partitions of this kind. The Whitaker patent of 1872, looking at Fig. 5, provides a tension device of some kind which, in one position, will function to prevent the ribbon being drawn back. The Shoup patent 286,493 of 1883 has a glass plate covering the exposed part of the ribbon and looking at Fig. 2, it also has a roll acting upon the ticket strip to prevent their turning backwards.

In the patent granted to Mr. Dwyer there was contained a specific element in each claim a removable side referring to the back wall of the casing. There is nothing in the Harbaugh box which is similar with regard to partitions as the construction shown in the Dwyer patent."

Goldberg, another witness called by Dwyer in the trial of his infringement suit—an attorney at law and consulting engineer specializing in patent practice—testified on cross examination (Trans. 88), that the Harbaugh device had no removable wall which had par-

titions affixed to it and which is an element in the language of the claim of the Dwyer patent.

On the trial of the infringement case as already mentioned appellant Harbaugh specifically tried to point^{out} to the court the character of the device patented to Dwyer, and use thereof in his business. But the questions directed to this end were opposed by Dwyer's counsel on the ground of immateriality, and the objection was sustained (Trans. 74), until towards the close of the trial, when similar questions were put by the court during the examination of Harbaugh on his own behalf. (Trans. 91.)

But even then counsel for Dwyer sought to dispel the conclusion of the court that the devices used by the parties were of a gambling nature, counsel stating: "I wish to say this on that question, that this device has been held not to be a lottery or gambling device of any kind, if that is the question in the court's mind."

Court: It occurs to me now that inasmuch as it has that feature, whether it is such a character that a court of equity would care to enjoin someone infringing it.

Dwyer's counsel: "I have authorities on that subject. I would also like to say that this apparatus itself has been specifically held by the court not to be a lottery or gambling device." ¹(Ib. 92.)

On Dec. 20, 1920, Judge Bean rendered his opinion for the dismissal of the infringement suit (Trans. 25) holding, in substance, that the *Harbaugh device did not*

contain the elements specified in the Dwyer claims. That the claims of the Dwyer patent as allowed can not be construed to cover what was rejected by the Patent Office. That the Dwyer patent, if valid at all, is a very narrow one, therefore he is not entitled to any monopoly of analagous means, and that the Harbaugh device was not an infringement of the Dwyer patent. Incidentally, the Court in its opinion mentioned that if the Dwyer device is not a lottery or gambling device it borders closely thereon. It is the element of chance in its operation which gives it value, and hence it was doubtful whether a court of equity, on grounds of public policy, should assume to protect him in a monopoly thereof.

The defendants in the infringement suit thereupon, on Dec. 20, 1920, entered a decree, dismissing the suit with cost to defendants.

On Jan. 14, 1921, appellant Harbaugh filed a petition praying the correction of said decree in conformity with Rules 72 and 19 of the Equity Rules, by adding thereto the provision that the temporary injunction, wrongfully granted to plaintiff Dwyer, in said suit, was vacated and set aside, and reserving the matter of ascertaining the damages sustained by the defendants, or either thereof, because of said wrongful temporary injunction, for further proceedings in the District Court. (Trans. 28-32.)

On Jan. 15, 1921, defendants filed a further petition (Trans. 33), among other facts alleging (Ib. 37)

“That by reason of the plaintiff, thru *his misrepresentations of the facts to this court and concealing from the court the true facts concerning his said alleged patent, and the claims thereof, and the scope of such claims, the plaintiff unlawfully and unequitably succeeded in producing for himself a substantially exclusive monopoly, and made large sums of money, the amount of which defendants can not state at this time, but thereafter would endeavor to establish, and which money so made because of plaintiff’s unlawful monopoly represented to a large extent the profits which defendant Harbaugh would have made if his rights had not been interfered with by said wrongful temporary injunction, and which profits the defendant Harbaugh would have made in competition with the plaintiff in those places and localities where both were operating their merchandise selling devices and selling their goods prior to the commencement of this suit.*” And the defendants prayed the court “to ascertain the damages which they and each of them had incurred in said infringement suit by reason of said wrongful preliminary injunction, and that the plaintiff be required to pay the sum so found to the defendants, in accordance with the directions of this court, and that the security, to-wit, the Liberty Bonds of the par value of \$10,000.00 on deposit with the Clerk of the Court be applied in satisfaction of the damages awarded by the court in the premises, and *that the defendants and each of them may have such other and further relief as may be just.*”

On Jan. 17, 1921, an Order was entered in said infringement suit correcting said decree of Dec. 20, 1920,

in that it specifically provided that the said injunction order of March 27, 1919, was vacated and the injunction thereunder dissolved. And it "further ordered that the matter of ascertaining what, if any damages, the defendants, or either of them, had sustained by said injunction order be referred to Robert F. Maguire, Esq., the standing Master of the court, to ascertain the facts and report to the court his finding in the premises." This order further provided that the Liberty Bonds deposited with the Clerk be retained in his custody subject to the further Order and Decree of the court herein. (Trans. 39.)

An appeal was taken by the plaintiff Dwyer from said decree of Jan. 20, 1920, and the order of Jan. 17, 1921, correcting the same and directing said reference, but said appeal was later dismissed because of Dwyer failing to print the record in compliance with Rule 23 of this court. (Trans 41.)

The matter of ascertaining the damages sustained by the defendants and each of them by said wrongful injunction was then brought to hearing before the standing Master.

On such hearing before the Master the proof on behalf of appellant showed:

There was no claim of damages on behalf of any of the other defendants. Appellant Harbaugh is the only one injured by the injunction; and counsel for all the defendants stated at the hearing be-

fore the Master (Trans. 157), that all parties knowingly acquiesced in Harbaugh's assertion here of ownership of the business of the General Novelty Company. That counsel was making that statement on behalf of all defendants to simplify the question before the court, in determining who was the right party to get restitution of that which was taken by Dwyer by the wrongful injunction.

Harbaugh, in his own behalf, testified (Trans. 93) :

"I am twenty-eight years old. I reside in Portland, Oregon, and am in retail jewelry business. In the early part of 1919 I operated the General Novelty Company. I was the owner; merely assumed that name."

Plaintiff's Exhibit 2 in the District Court was the device enjoined (Trans. 85). This is covered by a patent of which Harbaugh is the exclusive owner. (Trans. 178.)

"I was engaged in the business of selling merchandise in which I used this. * * *

"I made two hundred of these boxes. The merchandise sold by these boxes consisted of quite a large assortment, for the most part mounted on a pad, something on this order. Attached to the pictures, *Defendant's Exhibit 1* (Trans. 94) is a *list* showing the articles in that assortment. * * *

"There was an assortment of the merchandise delivered with each box. The assortment and the

tickets in the box corresponded with each other. I made the selection of articles for the assortment. The value of the assortment varied between thirty and fifty dollars. The box cost \$2.50. I sold the assortment of merchandise to the dealer for \$150, less thirty per cent commission usually. These assortments were placed on consignment with the dealers and he was allowed thirty per cent for such sales as he made. In placing these boxes with the dealers the salesmen called on them and either placed them in person, or took orders to be shipped.

* * * We had what we called a salesman's record, kept on sheets on which each assortment that we placed was entered. These are the sheets. They are in the handwriting of Winnifred Sullivan. She was my bookkeeper. Her name is now Mrs. Morris Minsky and lives in Seattle, Washington."

(This bookkeeper was called in corroboration. See Trans. 166.)

(Trans. 95.) "I instituted the system for keeping account of these transactions. The entries were made by the bookkeeper under my direction. By refreshing my memory from these record sheets I can testify as to each transaction I had with these boxes or merchandise. These record sheets relate to the year 1919. * * *

"As each assortment was shipped out, the entry was made on these record sheets, and also entered on a card. The entry on this sheet in most cases was

made from the original order. I have such original orders here. They are all contained in these files.

* * *

(Trans. 96.) "I have personal knowledge that every one of these entries of goods shipped were in fact made, and the goods put in the hands of these particular purchasers. I know that from my own personal knowledge and observation. These sheets are segregated by the salesmen's names. If an order was taken by Mr. Enloe, when it was shipped the entry was made upon his sheet, and the same with the other salesmen. The opposite side is a record of receipt of money from the dealer applying to those assortments. I know that the sums of money received and recorded here were received from these individual dealers whose names appear here. * * *

(Trans. 98.) "The expenses connected with the making of these sales outside of the commissions paid to the dealers; explained in detail were maintaining an office, salaries of bookkeeper and assistants who made up the assortments, express charges, stationery and such items as that, and the commissions paid to the salesmen, which were 15% of the amount received. We kept a list of all moneys paid out for expenses and at the end of the month entered them in the journal.

"When an assortment was shipped out a record was entered on the salesmen's commission sheets and also on a card which was placed on a card index. * * *

"Cards marked Defendant's Exhibit 3. (Trans. 99.)

"I got the information for making these entries on the commission record and on these cards, from the original order or memoranda of shipment. These original orders are in this box here.

"The original orders in the box received as Defendant's Exhibit 4. (Trans. 99.)

"I know of my own knowledge as to most of these orders in this box marked Exhibit 4 being filled. I am able to tell which of those orders had been filled by looking at the salesmen's record. I know of my own knowledge that each one of these orders which is specified here on Defendant's Exhibit 2 was filled. There were cases where they were returned later without being used, but those returned were noted on the record by the explanation 'Did not use,' or 'returned' or some such, written opposite to the particular name of the dealer and in alignment to the dealer's name.

"I know the net profits that my business realized from the boxes put out prior to the date of the preliminary injunction approximately. I ascertain that amount by deducting from the receipts all expenses, which left the net profit. I have a record of the receipts, but the expenses have to be estimated, in a number of instances. The receipts were entered in the salesmen's record sheets, also in the journal."

This journal was received in evidence as showing the receipts from these boxes and the merchandise sold, and marked *Defendant's Exhibit 5*. (Trans. 100.)

“The expenses consisted in a number of items. First, I estimated the cost of the merchandise that was sold at 50 per cent of the receipts as a maximum; it would actually be considerably less than that. Then there were commissions to salesmen. They are arrived at from the information on the salesmen's record sheets. When paid there would be an entry of the amount and to whom paid on the commission's record sheets. They were also entered in the journal at the end of the month; the total was entered in the journal.

“All other expenses were grouped. Rent and light and office expense, such as bookkeeper's salary and workmen's salaries, stationery and the like. Record was kept of them and the total entered in the journal at the end of the month. I have only the total for each month, so in arriving at the estimated expenses for the period of forty-five days I took seventy-five per cent of the total amount for the two months, which gave me the approximate expense, as near as it could be arrived at for the forty-five days. * * *

Ledger received in evidence and marked *Defendant's Exhibit 6*. (Trans 101.)

(Trans. 102.) “There were three thousand collar buttons to each assortment. These cost two

dollars a thousand, thus six dollars for each assortment. In addition to the other specified items the real fact was that each assortment only used approximately five hundred collar buttons, because the customers didn't take them.

"In figuring we cannot say how many less there were, so there will have to be added to \$36.30, six dollars for collar buttons. That would make the total cost \$42.30.

"I made up the first assortment and then had the workmen copy it. I personally am acquainted with all prices of the goods and am able to testify positively at this time as to my own knowledge of these assortments within a limit of variation. In making up my estimates I placed the cost for each assortment at not over fifty dollars. The actual cost was less in each instance. * * *

(Trans. 117.) "*The volume of business I did for the preceding forty-five days, I mean preceding being enjoined, was a total of \$11,266.00. That was the gross receipts after deducting the dealers' commission of thirty per cent but without deducting the salesman's commissions. In order to arrive at the profit it would be necessary to deduct the cost of the merchandise. That was \$5,655.00. I will explain how we arrived at that. By merely deducting fifty per cent of the total receipts, that is the amount of the cost of the merchandise. That would be the maximum and would usually be considerably more than the actual cost, but that is the*

way we figured it. Then the commissions paid, \$1,213.19 to salesmen. That is exact. All other expense \$765.00. That was arrived at by taking the total expenses for February and March and using seventy-five per cent of that total to cover the forty-five day period. *My net profits for the period of forty-five days was \$3,664.81.*

"We had been threatened with injunction for some time, I don't know exactly for how long, and some time before being served with papers enjoining us, I had endeavored to make up another box that we could use in case we were enjoined from the use of the one we were then using. This is Exhibit 7, the round box.

"Being threatened with injunction affected my business. Letters were received by our customers. Some of the customers showed me the letters they had received. I saw two of these letters. I am not able to say as to by whom these letters were signed. I don't know where those letters are. I have made a search for them but have not been able to find them.

"To replace the enjoined boxes we made up a new box, which our attorneys advised us did not infringe on any patents, and we put that in use. I attempted to put out that new box in California in the vicinity of San Francisco, but had no success at all. I found the dealers were using Mr. Dwyer's box put out by that territory, and we could not get our box in at all. The objection of the dealers to

the use of our new box was, they did not like it as well as Mr. Dwyer's. The cost of these new boxes was five dollars each. I had two hundred made. I endeavored to continue my business after the injunction was served up to January, 1920. Then I discontinued trying to put out any boxes because it was unprofitable. We were not doing enough business to make it pay. Our receipts steadily dwindled, and we were operating at a loss.

"In some instances the merchants received these circular boxes and used them but there was a general disinclination to use them because of their bulk and other objections they had to them. I made a computation as to the way in which our business fell off after the injunction. It is included in Exhibit 10.

"In April our receipts dropped to \$2,684.56 and our net profits to \$470.29. In May the receipts from the business were \$4,239.83 and the net profits \$310.36.

"This exhibit is based upon my knowledge gathered from the books. Receipts from the business done in June \$1,620.27, net loss \$318.27. All these months were in 1919. Receipts from business done in July \$360.34 with a loss of \$172.64. Receipts from business done in August \$822.32, with a profit of \$133.75. Receipts from business done in September \$488.93 with a loss of \$29.69. In October, the receipts were \$555.44, net profits, \$75.66. In November the business done was \$248.58

with a net loss of \$43.67. In December the business done amounted to \$190.00 with a net loss of \$250.75. I have no figures for January, 1920. That is when we stopped putting these out.

“The restraining order was served on March 22d, 1919. * * *

(Trans. 159.) “I will explain to the Court the nature of my business as compared with the business Mr. Dwyer was conducting. He was conducting a business with boxes same as mine, putting out same sort of merchandise in practically the same way. I have had occasion to examine the kind of merchandise he put putting out. They were similar, different assortments, in most instances the same. The class of merchandise we were putting out made a difference in loss of business or getting of business only in that the better the merchandise the more business we could expect to do. The candies, jewelry and other merchandise which he put out were not the same, they were similar—no two assortments the same, all similar as to character and value; same is true of those of Mr. Dwyer.

“The decline of business was caused by inability to use the box we had previously used. * * * I had means of supplying all the trade I could get for my boxes.

“I have examined the box here and determined that the box which I put out from February 25 to

March 24, 1919, inclusive, is the original box marked (Plaintiff's) Exhibit 2 in the District Court. From February 25 to March 24, inclusive, we put out 74 boxes. The return from the boxes was approximately \$8,737. I have the figures only for the total cost of the merchandise in those 74 boxes that I put out during this period. We put out a total of 74 boxes bringing volume returns of \$6,465.54; the cost of merchandise put out with those boxes merchandise \$3,232.75, commissions paid salesmen \$969.85, other expenses \$458.00, making a total of costs of \$4,661.40, leaving net profit of \$1,804.14."

Witness Rubenstein, for Harbaugh, confirmed the latter's statement as to the manner in which the business was done by Harbaugh. (Trans. 103.) This witness also stated in detail *why Harbaugh's business fell off* after the injunction. (Trans. 106.)

"This box here, the round box, was not received with the same favor as the original box by the dealers. There was objection to it for several reasons. The first objection was that it was large, it would take up too much space; usually kept these boxes on a showcase or cigar case or somewhere in the front where they could be seen, in order to get the customers interested in playing it, and when we put the other one on they complained it was too large and was taking up too much space. That is one of the main reasons; bunglesome. The placing of the new box to my knowledge affected the sub-

sequent trade, after the injunction in this way, that they kept on telling why I didn't give them the old box, it was smaller box, less bulk. They could see all the numbers right in front of it. In lots of cases they would possibly pull on a certain number and after they had spent, say ten or fifteen tickets they would be pulling on, they would figure there must be a prize about due. By turning this large box they would lose the number they had been pulling on and they would not know whether it was the same one or not, and in that way it wasn't satisfactory. They claimed that the round box, Defendant's Exhibit 7, was used to mislead the customer.

"The business began to fall off. The customers wanted the other box back again, and eventually they drifted back to either that one or one similar to that. This one here I recognize, I used to see this box here a great deal; the Bargain Box. (Referring to the plaintiff's box marked Plaintiff's Exhibit 3 in the District Court.)

"They would replace our round box with those other boxes. And in a great many cases they told me they liked my merchandise better, the board which the merchandise was displayed on, but they didn't like to keep the box, Defendant's Exhibit 7, on the show case. * * * That was the only reason business fell off, the use of this box; not because of police interference."

Witness Flator, for Harbaugh, also confirmed that the injunction and the restraint on Harbaugh from

using his first box (Plaintiff's Exhibit 2 in the District Court) was the direct and only cause of his loss of business. (Trans. 147.)

"I was in his employ and tried to put out some of the merchandise selling boxes for the General Novelty Company during a period within two or three months after the injunction. I took out the round, circular boxes, but the trip was an absolute failure. Altogether I made quite an extensive trip, starting here at Portland, and going to Spokane; from Spokane to Helena, Helena to Billings, Billings to Cheyenne, Wyoming, Cheyenne to Denver, Denver to Grand Junction, Colorado, and Salt Lake City, and then back to Portland again.

"They were a little bit too bulky, and they didn't like the style of the box. That was the biggest complaint, was that it took too much room on the counter; that was the biggest complaint. And there was a few other features they didn't like about it; for instance, most of them had seen other boxes and said they had the tickets right in front of them and this one here was in six different sections and had to keep turning the box around, and one party in particular I spoke to said it didn't work as good as this box here, the tickets used to get caught and jam."

Appellee Dwyer did not offer himself as a witness on his own behalf at all, but was called to the stand by appellant Harbaugh, and testified, in substance, that the

computations of his own business would "agree with the computations made by Mr. Harbaugh on like transactions." (Trans 179.)

On cross-examination by his own counsel Dwyer testified that the Superior Court of Seattle had held his device not to be prohibited by the statutes defining gambling in Washington, but on appeal to the Supreme Court, by the city of Seattle, his device was declared to be a gambling device.

On further redirect examination of Dwyer, on behalf of Harbaugh, he stated that *the Supreme Court decision was long after the trial* of his infringement suit. That *up to the date of the trial* of the latter *he was still in business as usual* "subject to the same police interference." Dwyer said: "*Notwithstanding police and other conditions I did quite a profitable business. When I had interference in one place by the police I immediately went into another. I had a large territory to go into and taking it as a whole the business was a profitable one.*" (Trans. 182.)

In this connection it is to be repeated that *on the trial of the infringement suit Dwyer testified* (Trans. 72) *that the business which he had done up to that time (Oct., 1920) was between \$250,000 and \$500,000.*

The contentions of Dwyer on the hearing before the Master appear from the Master's Report.

The Master found: (Trans. 45.)

“That the fact that the device is a gambling device does not bar the defendant Harbaugh from recovering any profits *which Dwyer obtained by reason of the restraining order*, and as to those profits Dwyer is in the position of *a trustee ex maleficio*.

“That the defendant Paul Harbaugh is the real party in interest in this suit and that there is no defect of parties. (Ib.)

“That there was no violation of the injunction by the defendant. (Ib. 49.)

Amount of Damages

(Ib.) The evidence shows that during the forty-five days immediately prior to the issuance of the injunction that the defendant was doing a large volume of business. From the boxes put in the hands of dealers during that period the defendant received the sum of \$11,256.00. Mr. Harbaugh testified that the merchandise sold with these boxes cost approximately \$50.00 a box, amounting to \$4,633.00; that the amount paid salesmen was \$1,213.19; that incidental expenses amount to \$765.00, making a total expense of \$7,611.19, and a net profit of \$3,644.81, or a daily profit of approximately \$80.99.

It may well be as contended by plaintiff's counsel that there was no absolute certainty that these profits

would continue in like amounts, but in all business the volume and profits fluctuate. If a generous allowance be made for fluctuations there can be no doubt that the defendant would have realized a profit of at least \$1,500.00 per month.

It is not necessary, however, for the Court to rest upon the figures given by the defendant, for the burden rests upon the plaintiff to account and show what portion of the profits he received were derived from the business which he took from the defendant by means of the restraining order.

The plaintiff admitted at the trial before Your Honor that the gross sales from his business for a period of thirty-six months ran from \$250,000. to \$500,000. His methods of operation were approximately the same as those of the defendant. It is not contended that the goods used by the plaintiff cost more than those used by the defendant, or that his costs of doing business were any greater. We have, therefore, satisfactory data from which to determine the net profits of the plaintiff, upon a basis of a minimum of \$250,000. He testifies that out of the gross returns of \$105.00 per box to him, \$40.00 of the same represented profits, and if this be a true statement, and there is no reason to suppose that the plaintiff overstated his gain, his average monthly sales would be \$6,944.00 and his average monthly net profits \$2,645.00. These figures have assumed the minimum amount of merchandise claimed to have been sold by the plaintiff. Of course, the profits would increase with the volume of sales, and if they reached the plaintiff's

maximum of \$500,000.00 the monthly profit would be \$5,290.00.

There is no testimony as to what proportion of these sums represent the profits which otherwise would have gone to the plaintiff. Inasmuch, however, as the Master has found that the plaintiff became trustee for the defendant the burden was cast upon plaintiff by competent testimony to separate those profits which were rightfully his from this which belonged to defendant. This the plaintiff has not done, and, upon the theory that the Master has adopted, any loss arising from this confusion of funds must fall upon the shoulders of the plaintiff.

Westinghouse Company vs. Wagner Company,
225 U. S. 604, 618.

Based upon the testimony of the defendant as to profits made during the time prior to the stoppage of his business by the Court's order and the admitted volume of business and profits made by the plaintiff and the failure of the plaintiff to properly account for those which belonged to the defendant, the Master makes the following findings:

That there came into the possession of the plaintiff by reason of the wrongful restraining order profits belong to defendant Harbaugh in the sum of \$1,500.00 per month. and that the total amount thereof during the pendency of the injunction and from the 27th of March, 1919, to the 1st day of January, 1920, at which date defendant ceased to do business, being nine months and

three days, is \$13,650.00, and that defendant is entitled to recover that amount with interest from date of final decree against the plaintiff.

The Master prays that his compensation in the premises may be fixed and that due order be made for its payment.

Appellee Dwyer thereupon filed *exceptions to the Master's Report* (Ib. 52) which may be summarized as follows:

(a) That appellant Harbaugh was not entitled to recover any damages because the device used by him was a gambling device.

(b) That the defendant Paul Harbaugh was not the real party in interest.

(c) That the Master erred in not finding that defendant had violated the injunction and was therefore precluded from recovering any damages.

(d) That the finding of the Master that there came into the possession of the plaintiff by reason of the wrongful restraining order profits belonging to the defendant Harbaugh is not sustained by the evidence.

(e) That the Master erred in not finding there was no tangible proof of loss of estimated profits.

That the Master erred in not finding that the profits claimed by the defendant were so remote contingent and speculative as to bar recovery of any alleged profits.

(f) That the recovery of the defendant in any event is limited to the amount of the bond.

The exceptions were argued before the District Court, the latter filed a memorandum opinion July 17, 1922, in which the court arrived at the conclusion that it was necessary to consider said exception "a" only, and with respect thereto held that the report of the Master should be set aside for the reasons already stated in the beginning of this brief.

A decree was then entered in said infringement July 17, 1922, setting aside the Master's Report, disallowing defendant's petition for damages, directing that the \$10,000.00 Liberty Bonds put up by Dwyer be returned to him, unless Harbaugh effected an appeal within thirty days by giving an approved bond in the sum of \$2,500, fixing the fees of the Master in Chancery at \$300.00, and requiring the appellant Harbaugh to pay this jointly with Dwyer.

An appeal was thereupon duly taken to this court based upon the errors pointed out in the following:

Specifications of the Errors Relied Upon

(Trans. 61)

I.

Because the District Court justified the illicit use by the plaintiff of the writ of injunction of this court to suppress the competitive business of defendant, on the ground that such business was illegal, notwithstanding

the plaintiff was engaged in the same business as a competitor of defendant, and profited directly by so suppressing the latter's competition.

II.

Because said decree is contrary to the principles of law, justice and equity governing the premises, and is particularly in violation of the principles which guarantees equal protection of the law to all persons, in that the District Court first interfered in the competitive business of the parties, and wrongfully enjoined said defendant from using his property in his business, thereby changing his position and condition in the premises, and enabling the plaintiff, by the illicit use of the process of this court, to make and take gains and profits from said defendant's business; and then the District Court abandoned defendant, and refused to require the plaintiff to comply with the conditions on which he obtained said illegal injunction, refusing to require him to restore to said defendant the gains and profits which he had so illegally taken from him.

III.

Because said decree is contrary to the principles of equity and justice, in that it permitted the plaintiff to profit by his own wrong in the premises, namely, to retain the gains and profits he made by illegally enjoining the defendant, his competitor, and thereby unlawfully diverting and appropriating the business, and profits of defendant's business to himself.

IV.

Because said decree is contrary to equity, and is unjust to defendant, in that it disregards, and fails to give effect to, the condition which was the price at which plaintiff obtained and accepted the temporary injunction granted him in this cause, and later found to be illegal, and refused to require the plaintiff to make restitution to defendant of that which he illegally took from him by said illegal injunction.

V.

Because said decree is contrary to the principles of equity and justice, in that the District Court, though still retaining control of the subject matter and the parties of this cause, refused to correct that which it had wrongfully caused to be done therein by its wrongful injunction, and refused to require the plaintiff to restore to said defendant the gains and profits which the plaintiff took from defendant's business, by illegally enjoining him.

VI.

Because the District Court erred in decreeing that no damages should be allowed said defendant for the injury he sustained by the wrongful injunction obtained by the plaintiff herein, notwithstanding the finding by the Master that the plaintiff illegally took gains and profits from defendant's business under said illegal injunction and in equity now holds such gains and profits as trustee maleficio for defendants.

VII.

Because the District Court erred in sustaining the plaintiff's exception to the Master's Report, also in setting aside and vacating said report and refusing to allow to defendant any damages notwithstanding the facts as found in this cause.

Argument and Authorities

The entire final decree of the District Court is contrary to equity and justice. The errors may be specifically summarized by the third and fifth assignments of errors:

"3. Because said decree is contrary to the principles of equity and justice, in that *it permitted the plaintiff to profit by his own wrong in the premises*, namely, to retain the gains and profits he made by illegally enjoining the defendant, his competitor, and thereby unlawfully diverting and appropriating the business, and profits of defendant's business to himself.

"5. Because said decree is contrary to the principles of equity and justice, in that the District Court, *tho still retaining control of the subject matter, and the parties of this cause, refused to correct that which it had wrongfully caused to be done therein by its wrongful injunction, and refused to require the plaintiff to restore to said defendant the gains and profits which the plaintiff took from*

defendant's business, by illegally enjoining him.”
(Trans. 62.)

To correct that which a court has wrongfully done by its process is one of the powers inherent in every court of justice so long as it retains control of the subject matter and the parties. *Arkadelphia Co. vs. St. Louis Ry. Co.*, 249 U. S. 134, 145.

It is more than a mere power; it is a duty founded on the principles of justice.

In *Northwestern Fuel Co. vs. Brock*, 139 U. S. 216, 219, cited in *Arkadelphia Co. vs. St. Louis Co.*, supra, the court said:

“The power is inherent in every court, while the subject matter of the controversy is in its custody, and the parties are before it to undo what it had no authority to do originally, and in which it therefore acted erroneously, and to restore as far as possible the parties to their former position.”

In the last mentioned case the court further said (P. 216):

“The right of restitution of what one has lost by the enforcement of a judgment subsequently revoked has been recognized in the law of England from a very early period * * * The same doctrine has been fully recognized by this court in *U. S. Bank vs. Bank of Washington* (31 U. S., 6 Peters, 817), stating, *on the reversal of a judgment*

*the law raises an obligation in the party to the record who has received the benefit of the erroneous judgment to make restitution to the other party for what he has lost * * *."*

In effect *the promise made, and obligation assumed by Dwyer, as a condition for the injunction, was:— Let me do all the business and collect all the profits, and if it be found that Harbaugh was not infringing my rights, and I, therefore, was not entitled to restrain him, I will account to him, and pay him back all profits which I took from him.*

Dwyer does not deny that by means of his unlawful injunction he took some profits from Harbaugh; but refuses the prayer of Harbaugh for restitution by pleading the maxims of "leaving the parties where they are," because both guilty of transgressing the law and "coming into court with clean hands." In so doing, however, Dwyer confesses that he was the only party carrying on the illegal business pending the injunction; also confesses that he is by far the greater malefactor; for, in the case at bar there are two parties, both patentees, competitors, having a monopoly of the-business which Dwyer says was illegal. And Dwyer used illicitly the solemn process of injunction for the sole and inequitable purpose of suppressing his competitor, thus diverting all the profits of the latter's business into his own pockets. In other words, Dwyer, by misrepresenting his patent, in effect caused the District Court, in issuing the wrongful injunction, unwittingly to hold Harbaugh bound while Dwyer took his property from him.

Dwyer's acts, both in law and equity are deemed fraudulent.

It is plain that the only purpose he had in bringing his suit was to practice the vice of *unfair competition* against Harbaugh; to eliminate the latter, his only competitor. *Dwyer's motive, therefore, was bad. His scheme, successfully carried out, was unfairly to appropriate Harbaugh's business. Unfair appropriation, by illegal court proceedings, is a species of unfair competition, condemned by the same principles as apply to the latter, and to be dealt with accordingly.*

"No arbitrary rule can be laid down as to what is or is not unfair competition." *Ludlow Valve Co. vs. Pittsburgh Mfg. Co.*, 166 Fed. 26, 29.

In unfair competition "equity does not concern itself with the means. The question is whether what was done is fraudulent, or has a tendency to promote fraud."

Bates Mfg. Co. vs. Bates Numbering Machine Co., 172 Fed. 892, 895.

Walter Baker vs. Slack, 130 Fed. 514.

Unfair competition "takes as many forms as the ingenuity of man can devise."

Manitowoc Co. vs. Milwaukee Malting Co., 119 Wis. 543, 546.

In *Racine Paper Goods Co. vs. Dittgen*, 171 Fed. 631, 633 (C. C. A. 7th), the defendant was adjudged

guilty of fraud and unfair competition by *pretending* that he had a broad patent, and in this way frightening off plaintiff's customers. The court said:

“* * * *If it is made to appear that under pretense (of protecting a patent right) he is pursuing a course which is calculated to unnecessarily injure another's business, and with the plain intention of so doing, his conduct will be deemed malicious, and he brings himself within the rule of law obtaining in cases of unfair competition in trade; * * * when this is proven * * * fraud will be implied.*”

In the case of *Atlas Co. vs. Cooper Co.*, 210 Fed. 347, 352, a suit to enjoin unfair methods of trade, the defendant had pretended to have a patent claim which would “stop the manufacture of every form of a practical imitation of closed crotch union suit.” The court remarked “The defendant has not in my judgment met the inferences legitimately to be drawn from its conduct thus disclosed.”

In the case at bar Dwyer threatened suit some time before he brought his infringement suit, in his effort to kill off Harbaugh's competitive trade.

In the introduction to *Nims Law of Unfair Competition*, page 2, it is stated:

“*Unfair competition is not confined to acts directed against the owner of a trade-mark or trade*

names, but exists wherever unfair means are used in trade rivalry. Equity looks not at what business the parties before the court are engaged in, but at the honesty or dishonesty of their acts. It is unfair to pass off one's goods as those of another
 * * * *but he who seeks to win trade by means fair or foul, is not limited to these methods*
 * * * *All acts done in business competition are either fair or fraudulent, equitable or inequitable, whether they relate to marks or not."*

Unfair competition is quite occasionally accomplished by the aid of the process of a court wrongfully obtained. As remarked by Judge Quarles in Commercial Acetylene Co. vs. Avery Co., 152 Fed. 642, 645, "Instances are not wanting where patentees make illicit use of the courts as instrumentalities of oppression."

If in the case at bar *Dwyer deliberately misrepresented the facts* concerning his patent in order to obtain his wrongful injunction, and thus eliminate Harbaugh as his competitor, he was clearly guilty of unfair competition, or what amounts to the same thing, *guilty of unfair appropriation* of defendant's business, as the court put it in *Marvel Co. vs. Pearl*, 133 Fed. 160, 162. That is, the purpose being "to prevent the exercise of the right of fair competition."

Dwyer knew that he had a very narrow patent. His attorney in his patent application had so advised him. Dwyer also knew that from proceedings in the Patent Office. (Trans. 73.)

On the motion for the preliminary injunction Dwyer took advantage of the similarity in outward appearance of the rival vending boxes, due to their physical and structural requirements. In appearance *Dwyer's own vending box simulated strikingly the device patented to Springsteen* Aug. 29, 1899, No. 632,070. Hence, the device in its general aspect was open to the public. And as far as the mechanical devices incorporated in these vending boxes are concerned, of course, everything in the prior art also belonged to the public at large. *Smith vs. Nicholls*, 21 Wall. (88 U. S.), 1892, 112, 117

Dwyer does not claim that his wrongful acts in the premises were due to bad advice. He made no explanation whatever. The Master noted that the evidence failed to disclose good faith on the part of Dwyer in obtaining his injunction (Trans. 42).

Dwyer testified on the trial of the infringement suit that in the patent application he was guided by his patent attorney, Frank Warren of Seattle; (Ib. 75) but did not claim to be acting under his advice in the suit nor did he call that attorney as a witness; nor did he claim to act under the advice of his expert Reynolds.

Reynolds, apparently, did not see Dwyer's patent, nor its file-wrapper, until shortly before he testified in the infringement suit. (Ib. 76.) The testimony of this expert, in effect, was merely his view point of the application of the doctrine of equivalents. He admitted that the Harbaugh device did not embody those features specifically made elements in the claims of the Dwyer

patent. (Ib. 86.) He further admitted that the prior patents showed similar means as those embodied in the Dwyer construction. (Ib. 85.)

Dwyer tried to re-introduce into his patent, in effect, the very claims which had been rejected by the Patent Office and cancelled by him. ¹(Judge Bean's opinion, Trans. 26.)

In fact, as mentioned, the only similarity of the Harbaugh device to the Dwyer device was in physical requirements, and those structural features admitted to be well known in the prior art, and with regard to which the unallowable claims of Dwyer had been cancelled.

Dwyer evidently withheld his knowledge of the true status of his patent from Judge Wolverton on the motion for the wrongful injunction; and besides represented that his patent had been *adjudicated* in a prior suit, when in fact such was untrue; the prior decree being wholly by consent.

To pretend that a patent has been litigated and sustained, when as a matter of fact it has never been in real litigation—such pretended adjudication being asserted in order to gain an advantage thereby—is a species of fraud, or imposition on the court. Luten vs. Wilson Co., 263 Fed. 983, 985.

“Fraud has been defined to be any cunning, deception or artifice used to circumvent, cheat or deceive another.”

“Fraud consists in any undue advantage taken of a party under circumstances which mislead, confuse or disturb the just results of his judgment and thus expose him to be the victim of the willful, the importunate and the cunning.”

“Fraud is what is done in secret and where there is a concealment from a party in a matter which concerns his interest.”

3 Words and Phrases, page 2943-4.

In order further to persuade the court to grant him a preliminary injunction, Dwyer coupled, in his Bill, with his charge of infringement, the charge that the acts of Harbaugh were unfair in the following particulars (Trans. 8):

“A. Unfair, fraudulent and unlawful use of ticket vending machines for selling collar buttons and other merchandise. B. Unfair, fraudulent and unlawful use of display boards upon which merchandise is displayed. C. Unfair, fraudulent and unlawful methods of procuring business. D. * * * intent to appropriate and unlawfully infringe upon plaintiff's rights, and to cause the public to be confused and deceived into purchasing the products of defendants * * * giving to defendants an unfair advantage and constituting unfair competition * * *.”

And on the trial of the injunction suit Dwyer explained what he meant by his charges of unfair competition against Harbaugh:

“My customers here were interfered with thru this imitating device, not alone imitating the device itself, but *imitating the methods of sale and the style* of merchandise that was used, and in many cases put out by the retail dealer as the same thing he had had before, the difference being the price, *the cut price given by the defendants* in this case.”

Thus *Dwyer had unfair competition in mind when he brought the suit*. He was trying to do the very thing with which he wrongfully charged defendant Harbaugh.

But aside from any specific defining of Dwyer's unlawful conduct, the fact remains that he *did acquire*, by his wrongful injunction, and *now holds profits* which he *wrongfully* obtained, by means thereof, from the defendant's business. *The transaction is closed. The business is gone, and nothing that the court can now do will affect the accomplished facts.*

Dwyer does not now charge that Harbaugh did anything wrongful as against him. The only offense charged against Harbaugh in the transaction which is to render him an outcast from courts of justice, is, that he transgressed the gambling laws.

*A breach of duty to the State does not necessarily involve a breach of duty to the defendant and when it does not it is simply an irrelevant fact unless the law gives it relevancy in some express form. * * ** Hence the conclusion is irresistible that the plaintiff's violation of a penal statute can not be pleaded in defense

of a tort unless such violation is a contributing cause of the injury for which compensation is asked. * * * *The fact that the party injured was at the time violating the law does not put him out of the protection of the law.*

* * * The law should not absolve from responsibility the perpetrator of a *private wrong* solely because the injured party may have violated a penal law, which violation in no wise contributed towards his injury.

Hughes vs. Atlantic Steel Co., 136 Ga. 511; 36 L. R. A. (N. S. 547).

One party to an action when called upon to answer for the consequences of his own wrongful acts done to the other, cannot allege the *separate wrong* of the other, done not to himself, or his injury and not necessarily connected with or leading to or causing the wrongful act complained of.

1 Sutherland on Damages (4th Ed.), Par. 5, P. 19.

The principle is "that to deprive a party of redress because of his own illegal conduct the illegality must have contributed to the injury.

1 Cooley on Torts (3rd Ed.), P. 209.

The law relating to the observance of Sunday defines a duty of the citizen to the State, and to the State only. For a breach of this duty he is liable to the fine or penalty imposed by the statute and nothing more. *We should work a confusion of relations and render a*

very doubtful assistance to morality, if we should allow one offender against the laws to the injury of another to set up against the plaintiff that he too was a public offender."

Philadelphia Co. vs. Towboat Co., 23 How. (64 U. S.) 209, 218.

In Fuller v. Berger, 120 Fed. 274, 278 (C. C. A. 7th, 1903), the court said:

"Equity is not concerned with the general morals of a complainant; the taint that is regarded must affect the particular right asserted in his suit. If the defendant can do no more than show the complainant has committed some legal or moral offense, which affects the defendant only as it does the public at large, the court must grant the equitable remedy and leave the punishment of the offender to other forums."

This doctrine was approved in Board of Trade v. Kinsey Co., 130 Fed. 507, 513, decided by the same C. C. A.

In Mills vs. Industry Co., 230 Fed. 463, 464, the facts showed that the defendants had not only violated the law themselves, in the same manner as the plaintiff, but besides had wrongfully invaded his rights. The court, citing the case of Fuller vs. Berger, remarked:

"This is not a suit between persons in pari delicto, this is not a suit where the plaintiff and de-

fendant have been jointly interested in violation of the law."

In *Batemen v. Fargason*, 4 Fed. 32, 33, the court said: *The maxim "He who comes into equity must do so with clean hand" * * * only applies to the conduct of the party in respect to the particular transaction under consideration; for the court will not go outside the case for the purpose of examining the conduct of the plaintiff in other matters * * *. The wrong on which relief is refused must be to the defendant and not to a third party.* This case is cited to the same effect in *Chicago v. Union Stock Yards*, 164 Ill. 224.

The court might have refused to have anything to do with the transactions of the parties in the first instance, because of the character of the business in which they were engaged. No complaint could then have been made by either party.

The nature of the business, it would seem, was at least indicated to the court from the very beginning by Dwyer's own description of his device, and it's only use is given in the specification of his alleged patent. Also by the device as manufactured under his patent and produced in court. The court, however, in its discretion, granted Dwyer his preliminary injunction, at the same time imposing ample safeguards for the rights of Harbaugh, in case the injunction should prove wrongful. But *after Dwyer had been found by the court to be an imposter, may it then desert Harbaugh, refuse*

him any relief, adjudge his bond as worthless, and let Dwyer keep all his unlawful gains?

It seems unthinkable that a court of equity would announce such doctrine. It doubtless was not intended by the court below. Yet this, in effect, is the result of the disposition of this case in the court below.

There is no dispute of the doctrine, that courts will not permit the recovery of the loss of profits due to a tort committed against an illegal business, where it is not also shown that the wrong-doer directly profited by his acts. *But, when the person who committed the injury did directly profit then a wholly different question arises.*

As said in *Head v. Porter*, 70 Fed. 498—There is a marked difference between profits directly made by a wrongdoer, and damages such as are recoverable, for example, for libel, slander, diversion of a water course, and similar actions of tort, not resulting in direct gain to the wrong-doer. In the former case actual *direct* pecuniary benefits, capable of definite measurement *are* acquired by the wrong-doer; in the latter, the loss suffered by the injured party does *not* result in any direct pecuniary benefits to the wrong-doer.

The District Court concedes the principle that a tort-feasor can not be permitted to profit by his own wrong. The court said (Trans. 57) :

“It is true under some authorities, where parties have entered into illegal transactions, and it has

been consummated, and one has profits growing out of it belonging to the other party, that the court will interfere to compel the party holding the profits to account to its partner."

But this statement loses the real *force* of the principle involved. *Not a single case* was cited in the court below, nor has been found, where a tort-feasor, who directly profited by his tort, was permitted to retain his illegal gains. It is contrary to the principles of justice and equity.

In *Manchester R. R. v. Concord R. R.*, 20 Atlantic Reporter 383, the Supreme Court of New Hampshire said:

"The first plea avers that the contracts between the parties under which the defendant went into and retained the possession and management of the plaintiff's road for more than thirty years, were wholly beyond the corporate power of either party to make or to ratify, and that, therefore, the defendant should be hence dismissed with its costs and charges. In other words not denying that it has received the full benefit of the performance of the contract by the plaintiff, the defendant says that it should in equity be permitted to retain the benefit and property so acquired, and be dismissed with costs, because it is not empowered by its charter to perform what it promised the plaintiff in return. The demurrer to this plea is sustained. The defense set up is so repugnant to the natural sense of justice, so contrary to good faith, and fair deal-

ing, and so opposed to the weight of modern authority, that it need only be said that, in equity at least, neither party to a transaction *ultra vires* simply, will be heard to allege its invalidity while retaining its fruits. However the contractual power of the defendant may be limited under its charter, there is no limitation of its power to make *restitution* to the other party whose money or property it has obtained through an unauthorized contract. * * * (386). It is true that in general, where parties are concerned in illegal agreements, or other transactions, whether they are *mala prohibita* or *mala in se*, courts of equity will not interpose to grant relief; but this is so *only* when the parties stand upon *equal* footing, for the doctrine everywhere running through books is that *relief will be granted*, when both parties are in *delicto*, provided they do not stand in *pari delicto*."

(See Story Eq. Jur. 12 Ed., Secs. 298, 300) * * *.

The court below thought that said principle of equity did not apply to the case at bar. Why it did not, we are not told. The court's opinion merely suggests that it seemed to find some justification in refusing restitution of the gains unlawfully made by Dwyer, because by the unlawful injunction Harbaugh was prevented "in effect from violating the law of the country."

But what principles of justice or equity is so emphasized? Quoting from the case of *Martin vs. Brooks*, cited by the Master (69 U. S. 2 Wall, 70), with substitutions to cover the facts:

“It is difficult to see how the statute enacted (against gambling) is to be rendered any more effective by leaving all (the profits taken from Harbaugh by Dwyer under the wrongful injunction in the hands of the latter), instead of requiring him to do exact justice; and what rule of public morals will be weakened by compelling him to do so?”

The only connection between the parties in the case at bar arises through the medium of the obligation assumed by Dwyer—the price of his injunction, the consideration for which obligation was the right to enjoin Harbaugh pending the suit.

The court did not, nor had it jurisdiction, to enjoin Harbaugh's business because contrary to the gambling statutes of the State. It merely assumed jurisdiction because a patent was involved; it merely temporarily enjoined Harbaugh from using his own boxes, because Dwyer made it appear that they infringed his patent.

After Dwyer had abandoned the charge of unfair competition, and the court had decided there was no infringement, the case was ended, except for the duty, still imposed upon the court, to cause *restitution* of that which had been wrongfully taken under its erroneous process. This involved, also, the duty to require Dwyer to do equity under his obligation. *All other questions are collateral* and foreign to the issue before the court.

“The principle that ‘he who comes into equity must come with clean hands’ does not repel all sinners from the precincts of courts of equity, *nor*

does it disqualify one from obtaining full relief there who has not done iniquity in the very transaction concerning which he complains. The wrong that may be involved to defeat him must have an immediate and necessary relation to the equity for the enforcement of which he prays."

Talbot vs. Independent Order of Owls, 220 Fed. 660, 662 (C. C. A. 8th, 1915).

This doctrine is also supported in Trice vs. Comstock, 121 Fed. 620 (C. C. A. 8th, 1903).

The maxim can not be invoked by the party who, tho a guilty participant, tries to shelter himself behind it in order "to remain in enjoyment of what he now seeks to show are illy gotten fruits."

Brown vs. Grove, 80 Fed. 564, 567 (C. C. A. 4th, 1897).

It is always to be borne in mind that *the court here is not asked to enforce a contract between the parties.* There was none. The parties were not interested jointly in any enterprise, but were competitors. *The transaction out of which the money, now withheld by Dwyer, was obtained has long since been closed. The only connection between the parties is that forced upon Harbaugh by the wrongful injunction obtained by Dwyer from the court, over the protests of Harbaugh. The court is asked only to compel Dwyer to return the money which he so wrongfully appropriated from Harbaugh's business.*

It is submitted, that the principle of "*leaving the parties where they are assumes that the court has not interfered in the premises at all. But if the court has already interfered, at the instance of the party who would plead this principle, who has reaped a direct benefit from the court's interference, and now holds the funds which he took from the other party by the aid of the court's order, then would not the ordinary principles of justice require restitution first to be ordered by the court, before it could abandon the party seeking relief.* If the court committed an error in interfering it should rectify that error first, and not permit itself to be used to the advantage of the party who was favored by such interference and who gained an unconscionable advantage under it.

The same view point as held by the District Court in the case at bar was considered and rejected by the U. S. Supreme Court in Brooks vs. Martin (69 U. S. 70). As stated in the Master's report (Trans. 45):

"This was a suit for an accounting between parties who had been engaged as partners in the business of purchasing returned soldiers' warrants in violation of the Act of Congress (and therefore illegal). The transactions had long been closed, and a large sum of money had been realized therefrom which was in the hands of one of the partners, who refused to account. As a defense he set up the fact that the purposes of the partnership were unlawful, and that a court of equity would not step

in to enforce its terms, but would leave the parties as it found them."

Mr. Justice Catron—who wrote the dissenting opinion of the court—concluded (p. 87) that equity should not interfere. But Mr. Justice Miller, speaking for the majority of the court in affirming the judgment of the Circuit Court said (p. 79):

* * * "The traffic was * * * illegal
* * * (but) * * * when the bill in the
present case was filed all the claims of the soldiers
thus illegally purchased by the partnership with
money advanced by the complainant, had been con-
verted into land warrants, and all the warrants had
been sold or located * * * there was then in
the hands of the defendant money, lands, etc. the
results of the partnership. It is to have an account-
ing of these funds and a division of these proceeds
that this bill is filed."

Then follows the oft quoted words cited by the Master here:

"Does it lie in the mouth of the partner who has, by fraudulent means, obtained possession and control of all these funds, to refuse to do equity to his other partner because of the original wrong done, or intended to the soldiers? It is difficult to perceive how the statute enacted for the benefit of the soldiers is to be rendered more effective by leaving all this in the hands of Brooks, instead of

requiring him to execute justice as between himself and his partner; or what rule of public morals will be weakened by compelling him to do so? * * * The transactions which were illegal have become accomplished facts and can not be affected by any action of the court in this case."

In *McMullen vs. Hoffman* (174 U. S. 639) the court only announced with respect to the doctrine of *Martin vs. Brooks* that it would not extend it to a case where the fraud complained of was *not* confined to the private matters of the parties, but related to matters "in which the whole community was vitally interested." But the court neither qualified, nor restricted said doctrine.

The case of *McMullen vs. Hoffman* (supra) was affirmed on certiorari from this Court of Appeals. When this Court of Appeals decided that case (83 Fed. 373, 384) it said:

"The doctrine of Brooks vs. Martin and kindred cases is and always should be applied in cases where the fraud complained of is between the individuals, which does not in any manner affect the public interest."

The U. S. Supreme Court in *McMullen vs. Hoffman* said:

"There is a difference between the case before us and that of *Brooks vs. Martin*, because in the latter case the fact existed that the transactions in

regard to which the cause of action was based were *not fraudulent*. They related in some sense to *private matters*, while in the case before us the entire contract *was a fraud* and illegal—(note not only illegal but based on *fraud*)—and related to a public letting by a municipal corporation for work involving a large amount of money in which *the whole community was vitally interested*.”

The reasoning of the Supreme Court in *McMullen vs. Hoffman* thruout clearly shows that the reason it distinguished that case from *Brooks vs. Martin* was because the instant case was an agreement between the parties which had a fraudulent object affecting the whole community while in *Brooks vs. Martin* the agreement related only to private matters between the parties and while based upon an illegal business it was not tainted with fraud which affected the public at large.

On page 648 of the opinion the court quotes from *Providence Tool Co. vs. Morris*, saying:

“It is sufficient to observe generally that all agreements for pecuniary considerations *to control the business operations of the government* are a fraud as against public policy.”

Quoting (page 649) from *King vs. DeBerenger*, it says:

“The public mischief is stated as the object of this conspiracy; the conspiracy is by false rumors to raise the price of the public funds and securities * * * the purpose itself is mischievous;

it strikes at the price of vendable commodity * * *
It is a fraud leveled *against all the public.*"

Quoting from *Hyer vs. Richmond Co.* (page 642) it repeats:

"That the vice of a combination lies in the fact of secrecy, concealment and deception; the one applicant, tho apparently antagonising the other, is really supporting the latter's application, and the *public* authorities are misled by statements and representations coming from a supposed adverse, but in fact, friendly source."

Quoting from *Embrey vs. Jamison* (page 657)—in which a recovery on promissory notes was not permitted "because the consideration for the notes was based upon a *contract* which was illegal—" the court repeated what Mr. Justice Harlan there said:

"The plaintiff could not be permitted to withdraw attention from that feature * * * by the device of obtaining notes for the amount claimed under the illegal agreement; for they are not founded on a new or independent agreement * * * they do not, in any just sense, constitute a distinct or collateral contract based upon a valid consideration. *Nor do they represent anything of value in the hands of the defendant which in good conscience belongs to the plaintiff.*"

In *Gilbert vs. American Surety Co.*, 121 Fed. 499, 503 (C. C. A. 7th), the court remarked:

“It is certainly difficult to say how public policy is subserved by allowing the addition of a *private* wrong to a public wrong which necessarily results when without any equivalent in return one party to an *executed* illegal transaction excludes the other from participating in the proceeds; and we entirely fail to appreciate the morality which denies in such cases any rights to the party whose money or other property has been appropriated by his associate contrary to any express agreement, or common honesty, and which in good conscience the benefited party can not retain.”

As mentioned, the *only connection* of Harbaugh with Dwyer was *forced* upon him by the wrongful injunction. The transaction has long since been closed, and Dwyer is holding that which he wrongfully appropriated by the injunction. Dwyer is merely trying to drag in the illegal-business plea—a wholly collateral matter—in order that he may pervert the maxims of equity into a shelter, behind which to hide himself, and thus keep that which in good conscience he should not be permitted to keep. And it is submitted that the wrong here complained of by Harbaugh, as having been perpetrated by Dwyer against him, should be redressed in conformity with the principle of *Brooks vs. Martin*, as interpreted by this court.

As stated in *McMullen vs. Hoffman* (*Supra*), the defense of illegality “is a *very dishonest one*, and it lies ill in the mouth of the defendant to allege it, and *it is only*

allowed for public consideration in order to better secure the public against dishonest transactions.”

In that case there was a contract between the parties which the court was asked to enforce. The contract was not only illegal, but fraudulent in its inception, and purpose, with regard to the whole community; the fraudulent purpose being to boost the price of a contract for public work. It was not a matter of merely deciding the *private* rights of the parties under an illegal transaction. To have upheld that contract would have disregarded the rights of, and encouraged fraud with respect to, the community at large.

But in the case at bar there is no contract between the parties, except such as was *forced* upon Harbaugh, and as arises, by implication, on the part of Dwyer, under his obligation not to induce the court to grant an unlawful injunction, and not unlawfully to use the injunction which was granted. That was the condition imposed by the court, and safeguarded by the pledge which the court exacted from Dwyer, represented by the \$10,000 still in the custody of the Clerk of the District Court.

It would not safeguard the public interest, nor strengthen morality to permit one of two parties, each separately engaged in an illegal business, as competitors, to use the process of a court of equity for the express purpose of unlawfully appropriating his competitor's share of that business. Nor does it promote public morals, or confidence in our courts, to permit such party, in

order to *avoid* his bond, given as a pledge of his good faith in suing out the process, *after* his unlawful acts have been accomplished to set up the illegality of the business so appropriated, for the express and only purpose of keeping that which he has unlawfully made from his competitor by the aid of the court's process.

If in the case at bar, the violation of the gambling statutes by one or the other of the parties must be overlooked by the court in deciding the issue, *who shall be exonerated? Shall it be he who is the greater transgressor? Shall it be he who unlawfully made use of the process of a court of equity to fill his pockets with ill gotten gains to overflowing?*

The transactions of the parties bearing on the violation of the gambling statutes are completed and past, "and can not be affected by any act of the court in this case;" but the measurement of the fraud perpetrated by Dwyer still rests in the scales of justice.

The principle of "leaving the parties where they are" is not applicable, because the court has already interfered—by granting the wrongful injunction—thereby placing one of the parties in a position of advantage over the other. Therefore, before that principle can equitably be applied here, the court should now, first, apply the *principle of restitution*.

As mentioned, the obligation assumed by Dwyer was the price of his injunction. The obligation and the consideration therefor had nothing to do with the business in which the parties were separately engaged as com-

petitors. The *independent consideration which Dwyer received* was the right to suppress Harbaugh, as it were, as a competitor, pending the injunction. That Dwyer violated his obligation is manifested by his refusal to refund to Harbaugh what he wrongfully took from him by the injunction.

In *Armstrong vs. Toler*, 24 U. S. (11 Wheat.) 258, the court said:

“If the promise be entirely disconnected with an illegal act and is founded on a new consideration, it is not affected by the act.” * * * Because—as Chief Justice Marshall said—“This would be to connect distinct and independent transactions with each other, and to infuse into one, which was perfectly fair and legal in itself, the contaminating matter which infected the other. This would introduce extensive mischief into the ordinary affairs and transactions of life, not compensated by any one accompanying advantage.”

In *Planter's Bank vs. Union Bank*, 83 U. S. (16 Wall.) 483, 499, the Supreme Court said:

“The illegal transaction has been consummated * * * It is enough that *the defendants have a thing in hand that belongs to plaintiffs*. * * * Though an illegal contract will not be executed, yet *when it has been executed by the parties themselves* and the illegal object has been accomplished, the money or thing which was the price of it may be a legal consideration between the parties for a

promise express or implied, and * * * the court will not unravel the transaction to discover its origin.”

The doctrine of the last mentioned case was quoted with approval by this Court of Appeals in *City of Santa Cruz vs. Wikes*, 202 Fed. 357, 372.

As mentioned above, under circumstances as here appear, the “clean hands” maxim cannot be invoked by the party, who, though a guilty participant, tries to *shelter* himself behind it in order to *remain in possession* of that which he *illegally* obtained. *Brown vs. Grove*, 80 Fed. 564, 567.

The wrong that may be involved to defeat the party seeking relief must have an *immediate and necessary* relation to the equity for the enforcement of which he prays.

Talbot vs. Independent Order of Owls, 220 Fed. 660, 662.

Trice vs. Comstock, 121 Fed. 620.

The remaining questions raised by appellee Dwyer in the court below, on his exceptions to the Master’s report, are mostly questions of fact, involving incidentally the application of rules of law and equity which will briefly be treated by appellant. The court below did not deem it necessary to consider these questions, and appellant hesitates to burden this court with an extensive re-examination of them.

As said in *Cimiotti Co. vs. American Co.*, 158 Fed. 171, in affirming the decree of the court below:

“The well settled rule is that the conclusions (of the Master) on matters of fact have every reasonable presumption in their favor and are not to be set aside or modified unless there clearly appears to have been errors or mistake.”

Dwyer contended that the burden of establishing the amount of profits wrongfully made by him rests wholly on Harbaugh; and further contends that the proof adduced by Harbaugh and accepted by the Master is insufficient.

Dwyer further contended, in the court below, that the rule with respect to the *trustee Ex Maleficio* was erroneously applied by the Master, because such rule is founded purely on section 4921 of the Revised Statutes, describing what may be recovered in patent cases, and, therefore, the case at bar does not come within such rule.

The Master in his report cited *Tilgham vs. Proctor*, 125 U. S. 136, 145, holding that in patent infringement cases the rule in equity is:

“The profits made by the infringer belong entirely to the patentee, and not to the infringer, and it is inconsistent with the ordinary principles and practice of courts of chancery * * * to permit a wrong-doer to profit by his own wrong.”

Also cited *Westinghouse Co. vs. Wagner Co.*, 225 U. S. 604, 618 which

“Presented a case where the court was called on to determine the liability of a trustee *Ex Maleficio* who had *confused his own gains* with those which belonged to the plaintiff. One party or the other must suffer. The inseparable profits must be given to the patentee or the infringer. *The loss had to fall on the innocent or the guilty. In such alternative the law places the loss on the wrong-doer.*” * * * In the latter case the court cites two instances of infringements of copyrights with the remark: “In both, as in patent cases, the infringer was a trustee ‘for the plaintiff in respect of profits.’ * * * *On established principles of equity, and on the plainest principles of justice, the guilty trustee can not take advantage of his own wrong.*”

Applying remarks in the last mentioned case, with substitutions conforming to the facts in the case at bar: Dwyer’s conduct has been such as to *preclude* the belief that he has derived no advantage from his unfair and fraudulent acts in the premises. He testified that *the business was profitable* (Trans. 182), and that *his computation of profits agreed with those made by Harbaugh.* (Trans. 179-180.) Therefore, *the profits illegally taken by him from Harbaugh must constitute some substantial part* of the hundreds of thousands of dollars earned by Dwyer during the injunction period.

Thus Dwyer’s own testimony and confession refutes his contention with respect to insufficiency of the evidence concerning the illegal gains he made.

Atlantic Coast Realty Co. vs. Townsend, Executor, 124 Va. 490, 510.

The burden was on Dwyer to segregate those illegal profits himself, if he disagreed with Harbaugh's computation.

Findlay vs. Carson & Walker, 97 Iowa 537, was an action on a bond, for wrongful injunction restraining plaintiff from selling coal, and the items of damages allowed were loss of profits and interruption of business; the court cited:

Willis vs. City of Perry, 92 Iowa, 297. This was a suit for damages arising from depriving plaintiff of the free and accustomed use of the water in her well by the city tapping the supply stream for artificial and extraordinary purposes. The evidence showed that plaintiff operated a bath house supplied by water from the well, and that the act of the city deprived plaintiff entirely of its use, for a portion of the time, for her bath house.

The court said (306):

"The law does not require impossibilities, and can not therefore demand a higher degree of certainty than the nature of the case admits. If a regular and established business is wrongfully interrupted, the damages thereto can be shown by proving the usual profits for a reasonable time anterior to the wrong complained of."

The court cited the case of *The City of Terre Haute vs. Hudnut*, 112 Ind. 542, 551 (which involved damage done to a mill by a defective sewer), holding that:

“What exists in the present or has existed in the past can not be considered a matter of speculation.

* * *

(555) “The adjudged cases very clearly show that in actions to recover damages resulting from tort, a more liberal rule in favor of the plaintiff prevails than in actions to recover for a loss resulting from a breach of contract; yet, in the latter class of cases the overwhelming weight of authority supports the doctrine that profits when not entirely speculative, may be taken into account. * * *

(556) “It is not to be forgotten that the law does not require absolute certainty in any case. Even in crimes of the highest grade, demonstration is not required. In civil cases all that is deemed requisite is a fair and reasonable degree of probability. * * * Lord Mansfield says: ‘that the only degree of certainty attainable in legal proceedings is a probable one,’ and this is the doctrine of logical as well as law writers.” This case elaborately discusses the subject of profits as recoverable damages.

In *Wintermute vs. Redington*, 1 Fisher 239, 17896, Federal Cases, it is held that the profits of the defendant due to the invasion of a patentee’s rights are equally the measure of the plaintiff’s damages.

In *Dean vs. Mason*, 20 How. (61 U. S.) 198, 203, the court remarks that this rule *takes away the motive* of the infringer of patent rights.

The rule is also applied in unfair competition cases. *Walter Baker Co. vs. Slack*, 130 Fed. 514, 519.

Dwyer contended that if he had not enjoined Harbaugh he would have made at least a part of the profits in dispute.

In the trade-mark case of *Saxlehner vs. Isner, et al*, 138 Fed. 22, 24 (C. C. A. 2nd), a similar contention was made. The court said:

“It would be casting an intolerable burden upon the complainant in such a case if after proving the fraud, the infringement and the profits he were compelled to enter the realm of speculation and to prove the precise proportion of the infringer’s gains attributable to his infringement. The argument reduces itself to this: The defendant says: ‘If I had been honest I could have sold at least a part of these goods and as you failed to show what that part is, you are entitled to recover nothing.’ The answer is: ‘You were not honest.’”

In *Head vs. Porter*, 70 Fed. 498 (C. C. D. Mass.), Circuit Judge Colt analysed in detail the difference between a *tort followed by direct pecuniary benefit to the wrong-doer* and a tort not followed by such results. While this was a patent case the principles are of universal application. The court said:

“The bill calls upon the wrong-doer to refund the profits he made, as it would be inequitable that he should make a profit out of his own wrong.

Profits are the gains or savings made by the wrong-doer by the invasion of plaintiff's property rights."

He then referred to the case of ⁴Sales vs. Ry. Co., Federal Case No. 12424, in which Judge Hughes said:

"Let us now suppose the case of a person who takes possession of, and uses another's horse, wagon and team or threshing machine without his knowledge, consent or authority. In such case * * * the owner may recover damages in trespass for the tort, or he may waive the tort and sue in assumpsit on the implied promise to pay what is equitably due for the use and possession of the property. * * * The case I supposed is in principle precisely the case we have at bar, for there is no magic quality in the property of the patentee in his patent to distinguish this case from the one just supposed. * * * Judge Colt then said: I can not assent to the proposition that the profits actually made by an infringer for which recovery is sought by his bill in equity are the same as damages in an action of libel, slander, diversion of a water course, trespassing, breaking up meadow, pasture land and similar actions of tort. The former are the actual, *direct* pecuniary benefits capable of definite measurement acquired by the wrong-doer. The latter are primarily the loss suffered by the injured party where the wrong-doer realizes *no* pecuniary benefit, or only such as are indirect, indefinite or rest in speculation, compromise, or arbitrary adjustment."

The rules which apply the profits of the tortfeasor as damages, as ascertained in unfair competition and patent cases are not peculiar to these, but they are taken from the general doctrine concerning damages and profits.

In *Wolcott vs. Mount*, 36 N. J. L. 262, 269, it is held:

The rule excluding "profits" as damages in tort as well as actions on contract has been removed. "The wrong-doer must answer in damages for those resulting injurious to others which are presumed to have been within his contemplation when the wrong was done."

Section 4921 of the U. S. Revised Statutes, relating to patent suits, did *not* confer thereby the power upon courts of equity to compel an accounting for, and refunding of, the gains made by the infringer of a patent. *That power existed before*; the section merely enlarged the court's jurisdiction, in that it permitted damages also to be awarded in a suit in equity.

As stated in *Root vs. Lake Shore, etc. Ry. Co.*, 105, U. S. 189, 217, this section was part of the act to revise, consolidate, and amend the statutes relating to patents and copyrights (16 Stat. at Large 198, Sec. 59). The court cited *Birdsall vs. Coolidge*, 93 U. S. 64, saying:

"Gains and profits are still the measure of damages in equity suits, except in cases where the

injury sustained by the infringement is plainly greater than the aggregate of what was made by the respondent, in which the provision is that the complainant shall be entitled to recover in addition to the profits to be accounted for, the damages he had sustained thereby." The court further said: "Quoting from *Fenn vs. Holme*, 21 How. (62 U. S.) 484, 'In every instance in which this court has expounded the phrase * * * proceedings in equity, with reference to the exercise of the judicial powers of the courts of the United States, they will be found to have interpreted * * * the equity law as defined and enforced by the Court of Chancery in England.' * * * The court then cited English cases and said: "*When * * * relief was sought which equity alone could give, as by way of injunction to prevent a continuance of the wrong, in order to avoid multiplicity of suits, and to do complete justice, the court assumed jurisdiction to award compensation for the past injury, not however, by assessing damages, which was the peculiar office of a jury, but requiring an account of profits, on the ground that if any had been made, it was equitable to require the wrong-doer to refund them, as it would be inequitable that he should make profit out of his own wrong.*"

The cases cited illustrated the application of this principle to suits involving the wrongful taking of timber, or ore, thus showing conclusively that this principle existed independently of, and long before, the enactment of section 4921 of the Revised Statutes.

When a court of equity has once acquired jurisdiction of a cause, it will proceed to complete determination of all rights of the parties thereto, according to the principles of equity.

Appellant Harbaugh's recovery is not limited to the \$10,000 which Judge Wolverton required Dwyer to deposit as a condition for granting the injunction as security for the damages which the defendant might sustain. The Master's procedure was correct when, without respect to the amount of the security, he found that the sum of \$13,650 represented the damages defendant Harbaugh sustained by reason of Dwyer's wrongful injunction. Such procedure is in complete conformity with the principle announced by the United States Supreme Court in

Arkadelphia Co. vs. St. Louis Ry. Co., 249, U. S. 134, 145, in which the court said:

"To the extent that the supplemental decree now under review awards a recovery against the *sureties* for claims accruing after the final decree, it must be modified, because not covered by the injunction bond; but in our opinion this portion of the claims is allowable against the Railroad Co. themselves, upon the principle, long established, and of general application, that a party against whom an erroneous judgment, or decree, has been carried into effect is entitled, in the event of reversal, to be restored by his adversary to that which he has lost thereby."

Note in this regard that the provision of the injunction order was (Trans. 12 (3)) that the deposit of \$10,000 was “to *secure* the payment of *any* damages which may be awarded to defendants,” therefore was not a limitation of the recovery which may be had, but *merely specified the amount of security to be given* for such recovery.

With regard to the discretion of the court below in awarding damages for the violation of an injunction erroneously granted by it, it is conceded that such discretion exists in the first instance. In the case at bar the court exercised its discreiton by directing that the damages sustained by the defendants be ascertained in this suit and that the inquiry before the Master was in obedience to such directions of the court.

In commenting upon such discretion the Supreme Court said in *Russel vs. Farley*, 105 U. S. 433, 443,

“It would be unjust to the defendant to disregard, and not to give effect to the undertaking which was the price at which the plaintiff accepted the injunction.”

Furthermore, in the case at bar the Master found in his report ¹(Trans. 42) that in his opinion

“The evidence does not disclose that degree of good faith on the part of the plaintiff in obtaining the injunction to warrant the exercise by the court of any discretionary power.”

The decree of the District Court is contrary to equity and justice, and should be reversed, with directions to confirm the Master's report, and to grant the petition of Harbaugh praying for the restitution of the money wrongfully taken from him by Dwyer by means of the wrongful injunction.

Respectfully submitted,

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